



From the Parliamentary Under Secretary  
of State for Industry

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Dear Robert,

#### MANCHESTER STEEL

As I promised at our meeting on 7 May, I am writing to set out in more detail the answers to some of the questions you, Frank Field and the delegation posed.

Before dealing with the specific points which were raised, I should first of all like to say that I do of course sympathise closely with the concerns expressed by the delegation over the future security of their jobs at Manchester Steel. But the commercially confidential nature of many of the regular contacts DTI Ministers and officials have with firms in the steel industry - and indeed with industry generally - coupled with the fact that there is no obligation on private sector firms to discuss their commercial plans with us, means that I cannot give as specific answers to your questions as you might wish. In any case, and more importantly, the Government takes the strong view that it is for private sector firms themselves (in the steel industry and elsewhere) to initiate and carry through commercial projects, including restructuring, without necessarily involving Government at all.

Turning to the main specific points that were raised:

1. It was suggested that BSC might provide funds, through Allied Steel & Wire (ASW), to pay for the closure of Manchester Steel (MS), or alternatively to prevent the closure of MS, and that BSC would in any case be the principal beneficiary of a MS closure through its holdings in ASW and Templeborough Rolling Mills (TRM).

This is a hypothetical question. Moreover, ASW, while jointly owned by GKN and BSC, is a free-standing limited liability company which has no call on cash from BSC other than that which is still outstanding from the original 1981 joint venture agreement (whereby BSC supplied cash to make up the difference between the value of its asset contribution to the new venture and the much more

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substantial contribution made by GKN). Given ASW's private sector status, I cannot direct BSC to use its influence in any way over the board of ASW, even if I had the powers to do so; and in any event, there could be no assurance that any other firm with which ASW was negotiating would agree. The same situation would apply to TRM.

2. It was suggested that it is unfair that ASW should have had public funding, while MS incurs heavy interest charges.

ASW's financial position now partly reflects the terms of the original joint venture agreement negotiated between GKN and BSC in 1983, described above; and partly the trading performance of the company since then. It is not open to the Government to change the terms of the 1981 agreement retrospectively. The financial structure of MS is a matter for the company and its owners.

3. It was suggested that a closure of MS would result in MS's scrap needs being diverted to exports, only to be re-imported subsequently as finished steel.

This would depend on whether a purchaser of MS did in fact close the MS plants, and if so, whether MS's load was transferred to other UK electric arc plants. In the latter case, scrap consumption at the plant taking on extra load would increase, so compensating for reduced scrap consumption at MS.

4. It was suggested that MS is the sole supplier of certain types and grades of steel, that much of Bidston's output went to the MoD, and that some of MS's customers used MS exclusively for certain grades of steel. MS was therefore of strategic value to the UK; and imports would undoubtedly rise if MS were closed.

These are all points which the Director General of Fair Trading would be able to examine in advising the Secretary of State on any firm proposal for a takeover of MS. However, such a merger would have to be considered in the light of the limits imposed on the exercise of UK competition legislation by the Treaty of Paris.

That said, the Government would obviously prefer restructuring in the UK steel industry not to be accompanied by large increases in imports. But in view of the low actual and prospective levels of capacity utilisation in this and other parts of the UK steel industry, the overriding objective must be to achieve further restructuring in the industry which will bring about improved prospects for profitability and viability. Only in this way can some hope of greater job security be offered to those who remain in the industry.

I am not aware that MS is the only source of any of the material it sells to the MoD for defence purposes.



5. It was suggested that the Government should put moral pressure on Elkem and/or ASW to prevent the closure of MS.

The Government is not prepared to act in this way.. Where private sector firms are concerned (and I explained to you that ASW and other firms in which BSC has a 50% stake are considered to be in the private sector), it is for the firms themselves to initiate and carry through restructuring projects which they judge to be commercially sensible.

6. It was suggested that the Government might provide financial assistance to an alternative proposal to keep MS open.

There is little realistic prospect of such financial assistance being made available. While we would look at an application for financial assistance on its merits, any Government aid for the steel industry (including regional aid) is subject to approval by the European Commission. They would be unlikely to approve any project which did not involve a capacity reduction. Furthermore, under the Community's Steel Aids Code, which the Government fully supports, all state aids to the steel industry must end by end-1985. This again includes regional assistance.

I am sending a copy of this letter to Frank Field.

*Yours sincerely*  
*Jb*

JOHN BUTCHER

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